



# County of Riverside

## Internal Audit Report

### Countywide Revolving Funds Economic Development Agency

January 12, 2009

Office of  
**Robert E. Byrd, CGFM**  
County Auditor-Controller

4080 Lemon Street  
P.O. Box 1326  
Riverside, CA 92502-1326



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COUNTY OF RIVERSIDE  
AUDITOR-CONTROLLER  
**Robert E. Byrd, CGFM**  
AUDITOR-CONTROLLER  
  
**Bruce Kincaid, MBA**  
ASSISTANT  
AUDITOR-CONTROLLER

January 12, 2009

Ms. Robin Zimpfer,  
Assistant County Executive Officer/EDA  
Economic Development Agency  
1325 Spruce St, Suite 400  
Riverside, CA 92307

Subject: **Internal Audit Report 2008-005.3: Countywide Revolving Funds, Economic Development Agency**

Dear Ms. Zimpfer:

We have completed an audit of the revolving funds held by the Economic Development Agency, one of five county departments selected as part of a countywide audit of revolving funds. We conducted the audit during the period March 20, 2008, through April 28, 2008, for operations of July 1, 2005, through November 23, 2008.

Our objective was to provide an independent assessment of the adequacy and effectiveness of internal controls over the use, accounting and safekeeping of revolving funds.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective, as described in the preceding paragraph, is achieved. An audit includes examining, on a test basis, evidence about the department's effectiveness and efficiency of operations, compliance with applicable laws, reliability of financial information, and performing such other procedures as we considered necessary in the circumstances. We believe the audit provides a reasonable basis for our opinion.

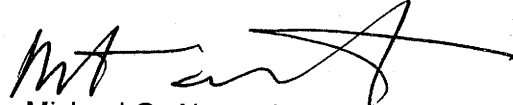
In our opinion, except for the conditions noted in our report, internal controls are adequate and effective, in all material respects, to ensure the proper use, accounting and safekeeping of the department's revolving funds. The areas for improvement include excessive revolving fund authorizations, segregation of functional duties, and accounting for cash shortages and overages.

A copy of the reply from the Economic Development Agency's management is attached to this report, and excerpts from the reply were presented in the appropriate sections of the report.

Management concurred to implement the recommended corrective actions and has already fully implemented three of the recommendations. We will follow-up within one year to verify that management implemented the corrective actions on the two remaining recommendations.

We thank the Economic Development Agency's management and staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM  
Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal stroke extending to the right.

By: Michael G. Alexander, MBA, CIA  
Deputy Auditor-Controller

cc: Board of Supervisors  
County Counsel  
Executive Office  
Grand Jury

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## **Executive Summary**

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### **Audit Objective**

Our objective was to provide an independent assessment of the adequacy and effectiveness of internal controls over the use, accounting and safekeeping of revolving funds.

### **Overview**

Pursuant to California Government Code (Title 3, Division 3, Chapter 2, Section 29320 et seq.), the Board of Supervisors adopted Resolution (74-156), on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The resolution authorizes the establishment of only one revolving fund, not to exceed \$10,000, for a single officer. The officer, under whose name the fund is established, is personally responsible and must account for the fund and return the fund to the Treasury when demanded by the Board of Supervisors, the officer ceases to hold the office, or the fund is abolished. The resolution further authorizes the Auditor-Controller to supervise the withdrawal, transfer, use, redeposit, and perform audits periodically and upon termination or transfer, of the revolving fund. On January 12, 1982, the Board of Supervisors adopted Resolution (82-75), authorizing the Auditor-Controller to perform the functions of the Board of Supervisors in establishing, increasing, reducing or discontinuing any of the revolving funds.

The officer having a revolving fund may deposit the fund in a commercial bank account and issue checks thereon, or use any other appropriate method of safekeeping.

Board of Supervisors Policy D-1 (Reimbursement for General Travel and Other Actual and Necessary Expense), requires that claims are filed promptly no later than the end of the month following when the expenditures were incurred. In addition, Auditor-Controller Standard Practice Manual 111-E-1-2.1 (Revolving Funds), calls for maintaining fund balance at an adequate level by submitting expenditures for reimbursement periodically.

### **Audit Methodology**

To accomplish our objectives, we:

- reviewed applicable codes, regulations, Board resolutions, policies and procedures;
- gained an understanding of the policies, procedures and practices affecting revolving funds through interviews with key personnel of the Economic Development Agency, office of the Auditor-Controller and office of the Treasurer-Tax Collector;
- obtained data from the PeopleSoft system and supporting documentation for transactions that were tested;

- analyzed the revolving fund balances with regards to the department's requirements; and
- established custodians' fund accountability by way of a surprise cash counts and fund reconciliations.

**Overall Conclusion**

In our opinion, except for the conditions noted in our report, internal controls are adequate and effective, in all material respects, to ensure the proper use, accounting and safekeeping of the department's revolving funds. The areas for improvement include excessive revolving fund authorizations, segregation of functional duties, and accounting for cash shortages and overages.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

## **Results**

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### **Overview**

The Economic Development Agency (EDA) maintains eight revolving funds totaling \$177,743.30. We selected a sample of 45 vouchers totaling \$104,394.76 for detailed testing. The department revolving funds are broken down as follows:

#### **Revolving Fund 4: Current Authorized Amount—\$3,500 Authorized Custodian: Deputy Director of EDA**

Revolving Fund 4 was established for EDA Administrative Services Division petty cash. During the surprise count conducted on March 20, 2008, we established the composition of the fund as follows:

|                            |                          |
|----------------------------|--------------------------|
| Petty Cash on Hand         | \$1,103.24               |
| Outstanding Advances       | 635.00                   |
| Outstanding Replenishments | <u>1,761.76</u>          |
| Total                      | <u><u>\$3,500.00</u></u> |

#### **Revolving Fund 5: Current Authorized Amount—\$1,500 Authorized Custodian: Deputy Director of EDA**

Revolving Fund 5 was established for the Aviation Division, for use in responding immediately to emergencies that occur at the county airports. Oftentimes, repairs are required immediately to ensure the safety of persons and structures.

During the surprise count conducted on March 20, 2008, we established the composition of the fund as follows:

|                            |                          |
|----------------------------|--------------------------|
| Petty Cash on Hand         | \$705.69                 |
| Petty Cash at Airports     | 400.00                   |
| Outstanding Replenishments | <u>394.31</u>            |
| Total                      | <u><u>\$1,500.00</u></u> |

#### **Revolving Fund 15: Current Authorized Amount—\$500 Authorized Custodian: Assistant Executive Officer/EDA**

Revolving Fund 15 was established to maintain change funds and pay for emergency expenditures at the Edward Dean Museum and Gardens. Of the authorized amount, \$50 is used as a change fund at the museum, and the balance of \$450 is kept in a checking account at

Bank of America. During the surprise count conducted on March 20, 2008, we established the composition of the fund as follows:

|                               |                        |
|-------------------------------|------------------------|
| Bank Checking Account Balance | \$437.60               |
| Museum Change Fund            | 50.00                  |
| Bank Fees                     | <u>12.40</u>           |
| Total                         | <u><u>\$500.00</u></u> |

**Revolving Fund 16: Current Authorized Amount—\$1,500**  
**Authorized Custodian: Deputy Director of EDA**

Revolving Fund 16 is used as petty cash fund at the Riverside County Fair and National Date Festival. The fund is used to pay for nightly races and other events sponsored throughout the year. During the surprise count conducted on March 20, 2008, we established the composition of the fund as follows:

|                            |                          |
|----------------------------|--------------------------|
| Petty Cash on Hand         | \$297.48                 |
| Purchases Made             | 151.62                   |
| Outstanding Replenishments | <u>1,052.88</u>          |
| Total                      | <u><u>\$1,500.00</u></u> |

**Revolving Fund 61: Current Authorized Amount—\$20,000**  
**Authorized Custodian: Deputy Director of EDA**

Revolving Fund 61 is used to pay for support services, participant claims and employee travel advances. The funds are maintained in a checking account at Bank of America. During the surprise count, we verified the checking account balance of \$20,000 which was equal to the authorized amount of revolving fund as of March 20, 2008.

**Revolving Fund 89: Authorized Amount as of March 25, 2008—\$95,000**  
**Authorized Custodian: Assistant Executive Officer/EDA**

Revolving Fund 89 is used as change funds for tickets and admissions to the Riverside County Fair and National Date Festival. The funds are kept as follows:

- \$17,400 maintained in a checking account at Rabobank
- \$12,600 maintained in a checking account at Bank of America



- \$65,000 temporary petty cash and change funds obtained for use during the Riverside County Fair and National Date Festival, February 15 through 24. On April 1, 2008 the department returned the fund to Treasury and Auditor-Controller.

During the surprise count conducted on March 25, 2008, the composition of the funds was as follows:

|                            |                           |
|----------------------------|---------------------------|
| Rabobank Balance           | \$4,734.68                |
| Purchases Made             | 690.00                    |
| Outstanding Replenishments | 11,719.84                 |
| Shortage                   | <u>(255.48)</u>           |
| Total                      | <u><u>\$17,400.00</u></u> |

The reconciliation showed an actual balance of \$17,144.52, which was short when compared to the authorized balance of \$17,400.

|                            |                           |
|----------------------------|---------------------------|
| Bank of America Balance    | \$12,268.47               |
| Cash Drawers               | 120.00                    |
| Outstanding Replenishments | <u>211.53</u>             |
| Total                      | <u><u>\$12,600.00</u></u> |

|                          |                           |
|--------------------------|---------------------------|
| Union Bank of California | <u>\$65,000.00</u>        |
| Total                    | <u><u>\$65,000.00</u></u> |

**Revolving Fund 110: Authorized Amount as of March 25, 2008—  
\$45,000  
Authorized Custodian: Assistant Executive Officer/EDA**

Revolving Fund 110 is a temporary fund established for payment of exhibit premiums and to accommodate unforeseen urgent expenditures during the Fair and National Date Festival. The funds are maintained in a checking account at Bank of America and the fund reduced to a zero balance when the event ends. The funds were returned to Treasurer/Tax Collector and Auditor-Controller's Office on April 1, 2008. During the surprise count conducted on March 25, 2008, we established the composition of the fund as follows:

|                            |                           |
|----------------------------|---------------------------|
| Bank of America Balance    | \$9,327.25                |
| Outstanding Replenishments | <u>35,672.75</u>          |
| Total                      | <u><u>\$45,000.00</u></u> |

**Revolving Fund 123: Current Authorized Amount—\$10,743.30**  
**Authorized Custodian: Assistant Executive Officer/EDA and Managing Director of EDA**

Revolving Fund 123 was established for the maintenance and payment of the junior livestock auction money during the Riverside County Fair and National Date Festival. The fund, which is maintained in a checking account at Bank of America, is self-sustaining since buyers are required to deposit the money that will be paid, less administrative expenses, to the seller of livestock. During the surprise count conducted on March 20, 2008, we established the composition of the fund as follows:

|                                   |                           |
|-----------------------------------|---------------------------|
| Bank of America Balance           | \$196,454.17              |
| Outstanding Checks                | (172,641.65)              |
| Net proceeds of sales due sellers | <u>(13,069.22)</u>        |
| Total                             | <u><u>\$10,743.30</u></u> |

**Finding 1** Revolving Fund 123 is under the custodianship of two officers, and all eight Revolving Funds in the department are under the official custodianship of three individuals. This is contrary to Board Resolution (74-156) requiring that only one fund can be established per custodian.

**Recommendation 1** Establish only one revolving fund for each custodian and obtain Auditor-Controller authorization for each fund and custodian.

**Management's Reply** "Concur. EDA has prepared Standard Practice Manual (SPM) Forms AR-1-Revolving Fund Change Form to assign only one revolving fund per custodian for all revolving funds maintained in the department. The forms were prepared and routed for signature on September 18, 2008 and they are expected to be submitted to the ACO by September 24. Approved copies will be provided to Internal Audits.

Actual date of corrective action: September 24, 2008.

Estimated cost to implement recommendation: N/A."

**Auditor's Comment** During September 2008 Standard Practice Manual Form (AR-1), was received and processed for Revolving Funds 4, 5, 15, 16, and 89 to establish only one custodian per fund.

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**Finding 2** Revolving Fund 89 has an unjustified shortage of \$255.48. The lack of tracking and monitoring revolving fund shortages and overages may result in misappropriation of the department's funds.

Auditor-Controller's Standard Practice Manual III-E-1-1.1 (Reporting Procedures for Cash Overages and Shortages), requires county departments to report cash overage and shortage internally within the department on a daily basis and to the Auditor-Controller's Office in a monthly basis.

**Recommendation 2** The department should monitor, and track revolving fund shortages on a daily basis, and report these to the Auditor-Controller's Office on a monthly basis utilizing Auditor-Controller Standard Practice Manual Forms AR-3, AR-4, and AR-5.

**Management's Reply** "Concur. EDA has implemented a process to track shortages internally on a daily basis, using SPM Form AR-3, and monthly to the Auditor-Controller's Office using SPM Form AR-4. Since SPM Form AR-5 specifies for the Auditor-Controller's Office use only, EDA will not utilize this form, but will however, print and keep copies of the quarterly Form 11 submitted to the Board of Supervisors to report the cash overages and shortages.

Specifically for the cash shortages of \$255.48 in Revolving Fund #89 mentioned in Finding #2, EDA reported the shortage to the Auditor-Controller's Office on April 25, 2008 using the SPM Form AR-4-Cash Overage/Shortage Monthly Report for Department Heads. This shortage was reported to the Board of Supervisors on June 10, 2008 Form 11-2.3. A replenishment check was issued on July 1, 2008 in the amount of \$255.48 on county voucher #9753, and deposited to the Rabobank account on July 31, 2008.

Actual date of corrective action: April 25, 2008 and July 31, 2008.

Estimated cost to implement recommendation: N/A."

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**Finding 3** Segregation of Revolving Fund functional duties are not maintained as follows:

- access to blank checks, signing checks and reconciliation of monthly statement are performed by one employee for Revolving Funds 15 and 89.

- signing and cashing checks and approving monthly reconciliation are performed by one employee for Revolving Fund 61

Auditor-Controller Standard Practice Manual 104 (Internal Control), states that duties should be divided or segregated so that no one person has complete control over a key function or activity. Lack of segregation of duties may result in loss or misuse of the department's fund.

**Recommendation 3** Segregate revolving fund custody, recordkeeping and authorization so that no one person has complete control over the revolving fund.

**Management's Reply** "Concur. During the period of July 1, 2005 through April 28, 2008, there was no single employee that performed all of the functions associated with Revolving Fund #61, #15 or #89.

**Revolving Fund #61:**

During the period of June 2007 through September 2007, there was a change in responsibilities of revolving fund reconciliation approval due to a medical leave of absence of the primary employee responsible for this function. Although the employee assigned to approve reconciliations during this period also had the ability to sign the checks, additional controls prevented this single employee from performing all of these functions on their own, as all checks for this revolving fund require prior approval and a second signature on the checks for any disbursements or replenishments processed.

**Revolving Fund #15 and #89:**

Procedures in place during this period separated custody, recordkeeping and authorization of revolving funds. All checks for these revolving funds require prior approval and a second signature on the checks before any disbursements or replenishments are authorized. The reconciliations were prepared by staff that neither have access to the checks nor signature/approval authority.

Actual date of corrective action: September 18, 2008.

Estimated cost to implement recommendation: N/A."

**Finding 4**

Revolving Fund 123 has an authorized balance of \$10,743.30 which is not used and replenished by the department. The fund is self-sustained through the deposits and payments of money by the livestock buyers and sellers respectively.

**Recommendation 4** The department close Revolving Fund 123 and return the entire authorized amount to the Treasury in accordance with Auditor-Controller's Standard Practice Manual III-E-1-2.1 (Revolving Funds).

**Recommendation 4.1** The department should retain the checking account to account for cash received and disbursed for livestock transactions.

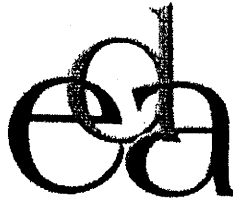
**Management's Reply** "Concur. EDA has prepared SPM Form AR-1-Revolving Fund Request Order & Change Form to discontinue revolving fund No. 123 as of September 18, 2008. A check has been issued from the Bank of America checking account in the amount of \$10,473.30 which will be returned with SPM Form AR-1.

The funds for the Junior Livestock are maintained in a separate Bank of America checking account and will be reported to the Auditor-Controller's Office annually.

Estimated date of corrective action: By September 24, 2008, the AR-1 form and check will be forwarded to the ACO to discontinue Revolving Fund No. 123.

Estimated cost to implement corrective action: N/A."

**Auditor's Comment** On September 19, 2008, the department submitted a check for \$10,743.30 to the Treasurer-Tax Collector's Office and Form (AR-1) to the Auditor-Controller's Office to close revolving fund 123.



RIVERSIDE COUNTY  
AUDITOR-CONTROLLER  
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**RIVERSIDE COUNTY**  
Economic Development Agency

DATE: September 18, 2008  
TO: Auditor-Controller  
Audits-and Specialized Accounting Division  
FROM: Deanna Lorson, Managing Director *DL*  
Economic Development Agency

**SUBJECT: Reply to Draft Audit Report**

In response to the Draft Audit Report dated September 2, 2008, we have implemented the appropriate modifications to satisfy the recommendations prescribed in the report. EDA is committed to periodically reviewing established procedures to ensure adequate controls are in place to provide reasonable assurance that effectiveness and efficiency of operations, reliability of financial reporting, safeguarding of assets, and compliance with applicable laws and regulations are achieved. We are confident that the revisions to our procedures provide reasonable assurance that our department is in compliance with overall internal control objectives.

**Recommendation Number 1:**

Establish only one revolving fund for each custodian and obtain Auditor-Controller authorization for each fund and custodian.

a. **Management position concerning the recommendation:**  
 Concur  Disagree

b. **Comments:**

EDA has prepared Standard Practice Manual (SPM) Forms AR-1 - Revolving Fund Change Form to assign only one revolving fund per custodian for all revolving funds maintained in the department. The forms were prepared and routed for signature on September 18, 2008 and they are expected to be submitted to the ACO by September 24. Approved copies will be provided to Internal Audits.

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c. **Actual/estimated Date of Corrective Action: September 24, 2008**

d. **Estimated cost to implement recommendation (If material)**

N/A

**Recommendation Number 2 - Revolving Fund #89:**

The department should monitor, and track revolving fund shortages on a daily basis, and report these to the Auditor-Controller's Office on a monthly basis utilizing SPM Forms AR-3, AR-4, and AR-5.

e. **Management position concerning the recommendation:**

  X   Concur

                     Disagree

f. **Comments:**

EDA has implemented a process to track shortages internally on a daily basis, using SPM Form AR-3, and monthly to the Auditor Controller's Office using SPM Form AR-4. Since SPM Form AR-5 specifies for the Auditor Controller's Office use only, EDA will not utilize this form, but will however, print and keep copies of the quarterly Form 11 submitted to the Board of Supervisors to report the cash overages and shortages.

Specifically for the cash shortage of \$255.48 in Revolving Fund #89 mentioned in Finding #2, EDA reported the shortage to the Auditor Controller's Office on April 25, 2008 using the SPM Form AR-4 - Cash Overage/Shortage Monthly Report for Department Heads. This shortage was reported to the Board of Supervisors on June 10, 2008 Form 11 - 2.3. A replenishment check was issued on July 1, 2008 in the amount of \$255.48 on county voucher #9753, and deposited to the Rabobank account on July 31, 2008.

g. **Actual/estimated Date of Corrective Action: April 25, 2008 and July 31, 2008**

h. **Estimated cost to implement recommendation (If material)**

N/A

**Recommendation Number 3:**

Segregate revolving fund custody, recordkeeping and authorization so that no one person has complete control over the revolving fund.

i. **Management position concerning the recommendation:**

  X   Concur                      Disagree

j. **Comments:**

During the period of July 1, 2005 through April 28, 2008, there was no single employee that performed all of the functions associated with Revolving Fund #61, #15, or #89.

**Revolving Fund #61:**

During the period of June 2007 through September 2007, there was a change in responsibilities of revolving fund reconciliation approval due to a medical leave of absence of the primary employee responsible for this function. Although the employee assigned to approve reconciliations during this period also had the ability to sign the checks, additional controls prevented this single employee from performing all of these functions on their own, as all checks for this revolving fund require prior approval and a second signature on the checks for any disbursements or replenishments processed.

**Revolving Fund #15 and #89:**

Procedures in place during this period separated custody, recordkeeping and authorization of revolving funds. All checks for these revolving funds require prior approval and a second signature on the checks before any disbursements or replenishments are authorized. The reconciliations were prepared by staff that neither have access to the checks nor signature/approval authorization.

k. **Actual/estimated Date of Corrective Action: September 18, 2008**

Departmental procedures established effective September 18, 2008 further separates the key functions of Revolving Fund #61, #15, and #89 into: custodian, approver, record keeper, check signer, reconciliation preparer and reconciliation approver.

l. **Estimated cost to implement recommendation (If material)**

N/A



**Recommendation Number 4 & 4.1**

The department close revolving fund No. 123 and return the entire authorized amount to the Treasurer's Office in accordance with Auditor-Controller's Standard Practice Manual No. III-E-1-2.1.

The department should retain the checking account to account for cash received and disbursed for livestock transactions.

m. **Management position concerning the recommendation:**

  X   Concur                      Disagree

n. **Comments:**

EDA has prepared SPM Form AR-1 - Revolving Fund Request Order & Change Form to discontinue revolving fund No. 123 as of September 18, 2008. A check has been issued from the Bank of America checking account in the amount of \$10,743.30 which will be returned with SPM Form AR-1.

The funds for the Junior Livestock are maintained in a separate Bank of America checking account and will be reported to the Auditor Controller's Office annually.

o. **Actual/estimated Date of Corrective Action: September 24, 2008.**

By September 24, 2008, the AR-1 form and check will be forwarded to the ACO to discontinue Revolving Fund No. 123.

p. **Estimated cost to implement recommendation (If material)**

N/A